

Message Text

LIMITED OFFICIAL USE

PAGE 01 PARIS 17722 01 OF 02 051246Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-11 NSAE-00 ICA-11
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 OIC-02 STR-07 /120 W
-----075069 051307Z /43
R 051229Z JUN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2591

LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 17722

USOECD

PASS CEA FOR NORDHAUS, TREASURY FOR KLOCK, FRB FOR
LUBITZ

E.O. 11652: N/A
TAGS: OECD, ECON
SUBJECT: ECONOMIC POLICY COMMITTEE (EPC) MEETING
MAY 29-30: INTERIM REPORT OF WORKING PARTY 2 ON
MEDIUM-TERM SCENARIO TO 1985

REF: PARIS 16264

1. SUMMARY: IN ADDITION TO ITS MAIN DISCUSSIONS OF
SHORT-TERM POLICIES (SEPTTEL), EPC ENDORSED AND
ENCOURAGED MEDIUM-TERM WORK BEING UNDERTAKEN BY WP-2,
BOTH AS TO ITS SCOPE AND ITS DIRECTION. EPC WELCOMED
EMPHASIS ON UNDERLYING ECONOMIC PROBLEMS WHICH CAN ONLY
BE ADDRESSED IN MEDIUM-TERM, E.G. INDUSTRIAL ADJUST-
MENT, FACTOR SHARE IMBALANCES, INTEGRATION OF NEWLY
INDUSTRIALIZING COUNTRIES, SPECIAL EMPLOYMENT PROBLEMS
OF LESS INDUSTRIALIZED OECD MEMBERS. ALTHOUGH SOME
DELEGATES REQUESTED MORE BALANCED APPROACH TO LOW
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 17722 01 OF 02 051246Z

GROWTH SCENARIO (E.G. 3 PERCENT ANNUAL GROWTH),
MAJORITY, INCLUDING FRG, URGED THAT WP FIND KEYS TO
FULL RECOVERY. CAUTION EXPRESSED ABOUT PRODUCING EXACT
NUMERICAL PROJECTION WHICH COULD BE TAKEN AS TARGETS,
PERHAPS OVERLY AMBITIOUS ONES. WP-2 CHAIRMAN AND
SECRETARIAT URGED EPC DELEGATES TO INSURE THAT THEIR
COUNTRIES REPRESENTED AT APPROPRIATE LEVEL AND COMPE-

TENCE AT WP-2 MEETINGS. END SUMMARY.

2. WP-2 CHAIRMAN (SCHREINER, NORWAY) INTRODUCED AND SUMMARIZED WP'S INTERIM REPORT CPE(78)8 ON DEVELOPMENT OF REVISED MEDIUM-TERM SCENARIOS TO 1985. HE NOTED THAT WP-2 IS CHARGED WITH STUDIES OF MEDIUM-TERM GROWTH AND RESOURCE ALLOCATION WITH SPECIAL EMPHASIS ON GOVERNMENT'S ROLE -- A TOPIC OF CENTRAL IMPORTANCE IN EPC DISCUSSIONS OF TODAY'S ECONOMIC SITUATION. WP HAS THREE CENTRAL IDEAS TO FORWARD AT THIS TIME TO EPC -- FIRST, DEMAND MANAGEMENT IS NOT TANTAMOUNT TO CONTROL OF AGGREGATE DEMAND SINCE PRIVATE SECTOR (HOUSEHOLDS AND BUSINESS) ARE KEY ACTORS; SECOND, DEMAND MANAGEMENT IS NOT SUFFICIENT, BY ITSELF, TO INSURE SUSTAINED ECONOMIC GROWTH, AND THIRD, PRIVATE INVESTMENT DECISIONS ARE PIVOTAL, THUS WP IS DEVOTING CONSIDERABLE ATTENTION TO INVESTMENT DETERMINANTS. WP FEELS STRONGLY THAT SHORT-RUN RECOVERY OF GROWTH IS CONSISTENT WITH MEDIUM-TERM GOALS, AND MAY IN FACT BE ESSENTIAL TO AVOID DEVELOPMENT OF A DOWNWARD SPIRAL OF ECONOMIC ACTIVITY. WHILE WP WILL ANALYZE FURTHER THE IMPLICATIONS OF CONTINUED SLOW GROWTH WHICH PRESENT POLICIES SEEM TO IMPLY -- EVIDENCE GATHERED TO DATE SUGGESTS EXISTING PROBLEMS WOULD BE EXACERBATED AND NEW PROBLEMS WOULD ARISE. WP NOTES THAT THERE IS STILL A STRONG COMMITMENT TO GROWTH IN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 17722 01 OF 02 051246Z

OECD COUNTRIES AND IS SEEKING TO IDENTIFY TYPE OF POLICY MIX WHICH WILL BRING ABOUT SUSTAINED NON-INFLATIONARY GROWTH IN THE MEDIUM TERM.

3. COMMENTARY ON SCHREINER'S REPORT WAS WIDELY FAVORABLE WITH SEVERAL DELS ELABORATING ON SPECIFIC THEMES NOTED BELOW AND SUGGESTING FUTURE WORK. US DEL (NORDHAUS) REINFORCED SCHREINER'S COMMENTARY ON COSTS OF GROWTH PATH TRACED BY EXTENSION OF CURRENT TRENDS AND POLICIES, NOTING SPECIFICALLY THAT GROWTH PESSIMISM IS ALREADY SETTING IN; PROFIT MARGINS WOULD REMAIN LOW, LEADING TO INSUFFICIENT INVESTMENT AND SLOWDOWN IN GROWTH POTENTIAL; CONTINUED PAYMENTS IMBALANCES; LARGER BUDGET DEFICITS; PROLIFERATION OF PROTECTIONIST

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 17722 02 OF 02 051257Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-11 NSAE-00 ICA-11
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 OIC-02 STR-07 /120 W
-----075150 051306Z /43

R 051229Z JUN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2592

LIMITED OFFICIAL USE SECTION 02 OF 02 PARIS 17722

USOECD

AND DOMESTIC ANTI-COMPETITIVE POLICY MEASURES, ADDING
GREATER RIGIDITIES TO ALL ECONOMIES. OECD FACES
BEING LOCKED INTO LOW, AND DECLINING, GROWTH TRACK
UNLESS ACTION TAKEN SOON TO EMERGE FROM THE CURRENT
MORASS. AUSTRALIAN DEL (STONE) TOOK OCCASION TO NOTE
THAT "CURRENT POLICIES" MUST MEAN "EXCESSIVE EMPHASIS
ON SHORT-TERM FISCAL STIMULUS MEASURES" THUS SUGGESTED
REMEDY OF MORE FISCAL STIMULUS SEEMED IRONIC.

4. BELGIAN DEL (MALDAGUE) QUESTIONED WHETHER OECD
COULD AFFORD TO PRODUCE SCENARIO TO 1985 WHICH DOESN'T
LEAD TO FULL EMPLOYMENT IN EUROPE (FYI -- CURRENT
WP-2 "HIGH SCENARIO" APPROACHES, BUT DOES NOT REACH,
TARGET HIGH EMPLOYMENT LEVELS BY 1985. END FYI), HE
SUGGESTED SOME ARBITRAGE MAY BE NECESSARY BETWEEN
INCOME AND EMPLOYMENT WHICH COULD RESOLVE OVERT UNEM-
PLOYMENT UNTIL RECOVERY COULD BE COMPLETE. UK (DOW,
BANK OF ENGLAND) AND AUSTRIAN DELS SUPPORTED STUDY OF
WORK-SHARING AND OTHER POSSIBLE "POSITIVE" ASPECTS OF
SLOWER GROWTH -- ALTHOUGH BOTH WERE CAREFUL TO ADD
THEY WERE NOT "ADVOCATING" SHOW GROWTH. GERMAN DEL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 17722 02 OF 02 051257Z

(TIETMEYER) WARNED AGAINST ATTEMPT TO FIND POSITIVE
ASPECTS OF SLOW GROWTH, SINCE THEY WOULD LIKELY BE
ILLUSORY IN A DOWNWARD SPIRALLING ECONOMIC CLIMATE.
SCHULTZE (U.S., EPC CHAIRMAN) EXPRESSED OPINION THAT
"WORK-SHARING" SEEMED PARADOXICAL TO HIM IN THAT IT

WOULD TEND TO TIGHTEN THE SUPPLY OF LABOR WHEN (A) TIGHTENING OF LABOR MARKETS WAS FOR SOME A "SPEED LIMIT" ON GROWTH AND (B) THERE EXISTS POSSIBILITY OF OVERHANG OF CAPITAL ACCUMULATION WHICH TRANSLATES INTO EXCESS CAPITAL FOR GIVEN LABOR SUPPLY. ON BOTH COUNTS, SCHULTZE FELT GREATER RATHER THAN LESSER SUPPLY OF LABOR DESIRABLE.

5. UK DEL OUTLINED SEVERAL FINANCIAL QUESTIONS WHICH WP MAY WISH TO ADDRESS IN MEDIUM-TERM CONTEXT. FIRST, WP SHOULD INVESTIGATE PROBLEMS ASSOCIATED WITH LARGE ACCUMULATION OF PUBLIC DEBT RESULTING FROM PERSISTENTLY LARGE GOVERNMENT DEFICIT. SECOND, QUESTION OF CROWDING-OUT SHOULD BE MORE RIGOROUSLY ANALYZED, ESPECIALLY IN CONTEXT OF MONETARY POLICY (WHICH HAS BEEN WEAK AREA OF WP'S WORK TO DATE ON SCENARIOS). THIRD, IMPLICATIONS OF FINANCIAL POSITION OF BUSINESS SECTOR IN CONTEXT OF LOW PROFIT RATES. DOW SUGGESTED HISTORICAL CAPACITY UTILIZATION RATES NO LONGER VALID, THUS PROFIT EXPECTATIONS TOO OPTIMISTIC IN EVALUATION OF INVESTMENT PROJECTS. FOURTH, REPEATED SUGGESTION MADE IN MAIN EPC PRESENTATION (BY WASS OF UK -SEPTTEL) THAT ENHANCED CAPITAL FLOWS SHOULD BE STUDIED AS MEANS TO OFFSET PERSISTENT CURRENT ACCOUNT IMBALANCES.

6. FUTURE WORK: SCREINER REPORTED TO EPC THAT WP WOULD COMPLETE ITS WORK ON REVISED MEDIUM-TERM SCENARIOS BY END CY78. HE SUGGESTED THREE AREAS FOR FOLLOW-ON: LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 17722 02 OF 02 051257Z

(A) ANALYTICAL STUDY OF GOVERNMENT POLICIES WHICH AFFECT REALLOCATION OF RESOURCES AND PERHAPS INTRODUCE ALLOCATION DISTORTIONS IN FACE OF MARKET FORCES. THIS WOULD ESSENTIALLY BE ANALYTICAL FOLLOW-UP OF POLITICAL CONCERNS RAISED IN CONTEXT "POSITIVE ADJUSTMENT" ISSUE.

(B) ASSESSMENT OF RELATIONSHIP BETWEEN MARKET/NON-MARKET ACTIVITIES IN LIGHT OF SHIFTING ROLES, E.G., NUMEROUS ACTIVITIES HAVE MOVED FROM FAMILY NON-MARKET SECTOR (DAY CARE, HANDICAPPED EDUCATION) TO MARKET.

(C) INTEGRATION OF RESULTS OF LONGER-TERM WORK OF INTERFUTURES PROJECT WITH MEDIUM-TERM STUDIES.
SALZMAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, ECONOMIC REPORTS, COMMITTEE MEETINGS, COMMITTEES, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PARIS17722
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780234-0355
Format: TEL
From: PARIS USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780696/aaaademu.tel
Line Count: 219
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0f843d92-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 PARIS 16264
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2489836
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC POLICY COMMITTEE (EPC) MEETING MAY 29-30: INTERIM REPORT OF WORKING PARTY 2 ON MEDIUM-TERM SCENARIO TO 1985
TAGS: ECON, OECD
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/0f843d92-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014